



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

April 4, 2000

S. 1691

Disaster Mitigation Act of 1999

*As ordered reported by the Senate Committee on Environment and Public Works on
February 9, 2000*

SUMMARY

S. 1691 would amend the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act) to make changes to existing disaster relief programs and authorize a new program for predisaster mitigation. Assuming appropriation of the necessary amounts, CBO estimates that implementing S. 1691 would increase discretionary outlays by a total of about \$2 billion over the 2001-2005 period. That amount includes a net increase in discretionary spending of \$112 million for new activities authorized under the bill. The remainder of the estimated net increase in outlays—\$1.9 billion of the five-year total—would result from provisions that would accelerate spending of future appropriations from the Federal Emergency Management Agency's (FEMA) disaster relief fund, but would not change total spending over the long term.

If the necessary funding for predisaster mitigation efforts is provided and used judiciously, implementing this legislation could lead to savings to the federal government by reducing the need for future disaster relief funds. CBO cannot estimate the timing or magnitude of such savings because we cannot predict either the frequency or location of major natural disasters. Over the next 10 years, savings could exceed the \$113 million that CBO estimates would be authorized for predisaster mitigation efforts, but we expect that any such savings would be small over the next five years.

S. 1691 also would affect direct spending and receipts; therefore, pay-as-you-go procedures would apply. CBO estimates that the changes in direct spending and receipts would be less than \$500,000 a year.

S. 1691 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and, on balance, would benefit state, local, and tribal governments.

DESCRIPTION OF THE LEGISLATION'S MAJOR PROVISIONS

The Stafford Act authorizes FEMA to provide disaster relief and postdisaster mitigation assistance to state, local, and tribal governments, certain private nonprofit organizations (PNPs), and individuals following Presidentially declared major disasters and emergencies. Total spending for these programs has averaged about \$3 billion each year over the past five years. Roughly half of that amount typically supports FEMA's Public Assistance program, which provides grants to public entities and PNPs for response and recovery efforts. Under FEMA's Hazard Mitigation Grant Program, jurisdictions affected by disasters also receive grants for postdisaster mitigation, which CBO estimates cost an average of about \$275 million a year. Remaining amounts support disaster relief for individuals and other programs authorized under the Stafford Act.

S. 1691 would make several amendments to the Stafford Act that would affect federal spending for the Public Assistance program and postdisaster mitigation. Specifically, the bill would change certain eligibility requirements and establish new procedures for determining the amount of disaster assistance that could be provided to applicants under the Public Assistance program. The bill also would authorize FEMA to provide more assistance to certain applicants for hazard mitigation grants.

In addition, S. 1691 would authorize new predisaster mitigation programs. It would authorize FEMA to provide technical and financial assistance to state, local, and tribal governments for predisaster mitigation activities through 2003. The bill also would direct the President to create all-hazard maps, use those maps to designate hazard mitigation zones, and establish an interagency task force, led by the Director of FEMA, to coordinate federal disaster mitigation programs. Under the bill, FEMA could collect and spend gifts and bequests for predisaster mitigation.

The bill also would direct the National Academy of Sciences (NAS) to study the impact of enacting this legislation and would make other modifications to the Stafford Act. Finally, S. 1691 would expand the definition of a public safety officer to make certain federal, state, and local employees eligible for federal death and disability benefits while working under a major disaster or emergency declaration or other hazardous circumstances.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO estimates that implementing S. 1691 would result in additional discretionary outlays of about \$2 billion over the 2001-2005 period. The estimated increase in outlays includes \$112 million in net additional costs and \$1.9 billion from the faster spending of future appropriations. Because the faster spending of disaster relief funds would not affect

long-term costs, a corresponding net decrease in outlays would occur over the 2006-2010 period. The legislation also would affect direct spending and receipts, but CBO estimates that the net budgetary impact of these provisions would not be significant.

The estimated budgetary impact of most of the provisions in S. 1691 is shown in the following table. The table does not reflect some potential savings and costs from provisions that may affect discretionary spending but for which CBO cannot estimate the likely effects. In particular, we cannot estimate the potential savings in the costs of future disaster relief that may result from the increased spending on predisaster mitigation activities that would be authorized by S. 1691. While such savings could be significant in the long run, we expect that any savings would be small over the next five years. The costs of this legislation fall within budget function 450 (community and regional development) and 750 (administration of justice).

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
SPENDING SUBJECT TO APPROPRIATION^a						
Spending for Disaster Relief Under Current Law						
Budget Authority/Estimated Authorization Level ^b	2,765	2,818	2,866	2,920	2,973	3,027
Estimated Outlays	2,711	2,855	2,933	2,866	2,811	2,790
Proposed Changes						
Estimated New Authorizations						
Estimated Authorization Level	0	46	72	42	23	23
Estimated Outlays	0	16	30	15	26	25
Estimated Change in Outlays from Baseline						
Estimated Authorization Level	0	0	0	0	0	0
Estimated Outlays	0	0	0	292	736	895
Spending for Disaster Relief Under S. 1691						
Budget Authority/Estimated Authorization Level	2,765	2,864	2,938	2,962	2,996	3,050
Estimated Outlays	2,711	2,871	2,963	3,173	3,573	3,710

a. S. 1691 also would increase direct spending and revenues, but CBO estimates that such changes would be less than \$500,000 a year.

b. The 2000 level is the amount appropriated for that year, including \$2,471 million for an emergency supplemental appropriation provided in Public Law 106-74. The remainder of the 2000 level is the regular appropriation of \$294 million. The levels shown for 2001 through 2005 are CBO baseline projections assuming increases for anticipated inflation.

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes that S. 1691 will be enacted by the end of this fiscal year and that the amounts estimated to be necessary will be appropriated near the start of each fiscal year.

Spending Subject to Appropriation

S. 1691 contains provisions that would result in both discretionary costs and savings to the federal government. CBO estimates costs associated with provisions that would:

- Increase the maximum federal contribution for postdisaster mitigation costs,
- Authorize new spending for predisaster hazard mitigation efforts, and
- Require the NAS to complete a study and a report.

CBO estimates savings associated with provisions that would:

- Allow FEMA to use the estimated cost of facility repairs rather than the actual cost,
- Require certain PNPs to apply to the SBA for disaster loans, and
- Reduce the federal share of public assistance provided to repair certain repetitively damaged structures.

CBO cannot estimate the effects of provisions that would:

- Achieve long-run savings associated with the predisaster mitigation efforts,
- Strengthen the existing insurance requirement for recipients of public assistance grants,
- Decrease the size of payments that could be offered to public assistance applicants in lieu of grants to repair or replace damaged facilities,
- Establish standardized rates for reimbursement of management costs, and
- Authorize FEMA to allow states to administer postdisaster mitigation programs.

In addition, CBO estimates that outlays would be accelerated by allowing the President to disburse future appropriations for disaster relief to public entities and PNPs before projects are completed, based on the estimated cost rather than on the actual cost.

Provisions with Estimated Costs. CBO estimates that several provisions of S. 1691 would increase federal funding for postdisaster and predisaster mitigation efforts. For example, the bill would increase funding for grants to public entities and certain PNPs for postdisaster mitigation efforts following a major disaster or emergency declaration. The size of those

grants is based on the total amount of disaster assistance provided within each state covered by the declaration. CBO estimates that FEMA spends an average of about \$275 million annually for such grants. Under S. 1691, if states have an approved mitigation plan, FEMA could increase grants to those states by one-third. Assuming that most states would become eligible for this higher rate over the next three years, CBO estimates that this provision would require additional appropriations totaling \$288 million over the 2001-2005 period and that outlays would total \$182 million during that period.

CBO estimates that the new predisaster mitigation initiatives authorized by S. 1691 would increase federal outlays by a total of \$113 million over the next five years. Based on information from FEMA, we estimate that implementing the new three-year program for grants to state and local governments would require \$27 million in new budget authority in fiscal year 2001 and \$30 million in each of the fiscal years 2002 and 2003. CBO estimates that activities relating to mapping, designating, and managing hazard mitigation zones would cost at least \$5 million in 2001 and \$4 million each year thereafter. Finally, we estimate the interagency task force established to coordinate mitigation programs would cost about \$1 million annually.

Based on information from the NAS, CBO estimates that conducting a study on the effects of this legislation would cost about \$1 million in 2003.

Provisions with Estimated Savings. CBO estimates that implementing certain changes to FEMA's Public Assistance program would reduce discretionary spending for disaster relief over the 2001-2005 period. For example, the bill would streamline the process for determining the size of public assistance grants by authorizing FEMA to base such grants on the estimated cost of repairing or replacing a public facility rather than the actual cost. Based on information from FEMA, we estimate that the net impact of this provision would be to reduce the costs of administering grants for public assistance by between 15 percent to 20 percent once the new procedures are in place. We expect that administrative savings would not occur before fiscal year 2003 because S. 1691 would first require the President to establish an expert panel to develop procedures for estimating the cost of repairing or replacing a facility. FEMA would likely incur some additional costs for operating the expert panel, estimating the cost of repairs with more precision, and evaluating the accuracy of estimates. Assuming that FEMA spends about \$300 million a year to administer the Public Assistance program, CBO estimates that implementing this provision would result in net administrative savings of about \$138 million over the 2003-2005 period.

Allowing FEMA to substitute the estimated cost for the actual cost in providing disaster relief to public entities and PNPs also could affect both the amount and the timing of assistance provided. Under the legislation, FEMA could receive compensation for overpayments or provide additional assistance for underpayments if the actual costs of a

project do not fall within a certain range. The expert panel established under the bill would determine the parameters that would define the ranges that would apply to different projects. Using an estimated cost could substantially increase or decrease the federal government's cost to repair or replace public facilities if these estimates consistently fall below or above the actual costs of such projects. Because the federal government spends over a \$1 billion each year on such projects, a bias of 10 percent in either direction would change the annual cost of disaster relief by more than \$100 million. Because we have no basis for predicting a bias in either direction, CBO cannot estimate the net change in the cost of disaster relief projects from substituting estimates for actual costs.

The bill also would require certain PNPs to apply to the Small Business Administration (SBA) for disaster loans before requesting public assistance from FEMA's disaster relief fund. Based on information from FEMA and the SBA, CBO estimates that under this provision, about 100 PNPs would receive SBA loans instead of disaster relief grants, resulting in additional loans totaling about \$8 million. We estimate that this change would yield net savings of approximately \$6 million per year from 2001 through 2005. The savings would result because the government would, in some cases, be providing loans instead of grants to these institutions. The estimated savings is the difference between the reduction in FEMA assistance and the SBA's subsidy cost for the new loans.

Other provisions would amend current law to authorize FEMA to reduce disaster assistance for certain repetitively damaged public and PNP structures. Under current law, FEMA may provide up to 75 percent of the cost of repairing or replacing structures owned by public entities or PNPs. S. 1691 would authorize the President to reduce this share if federal funds have been used at least twice to repair damage caused by the same type of event and if the owner of the facility has not implemented appropriate mitigation measures. Based on historical data and information from FEMA, CBO estimates that this provision would result in savings of at least \$4 million each year starting in fiscal year 2002. Savings could potentially be higher, but CBO does not have sufficient basis to estimate the magnitude or timing of such additional savings.

Provisions with Effects CBO Cannot Estimate. CBO does not have sufficient basis to project potential budgetary effects of some provisions of S. 1691 because they depend upon the extent and nature of future disasters, the manner in which the Administration would implement certain provisions, and the extent to which states would participate in certain programs.

CBO cannot estimate the potential savings associated with the predisaster mitigation efforts proposed in this legislation. Mitigation efforts could achieve significant savings if damages from future disasters are lessened as a result of the predisaster mitigation measures provided

for in the legislation, although we expect that any savings in the first five years would be small.

S. 1691 would clarify and strengthen existing rules requiring insurance for certain public and PNP properties. Under current law, owners of such properties who receive disaster assistance must maintain insurance in order to qualify for additional assistance for damage caused by subsequent events. According to FEMA, this requirement is often waived by state insurance commissioners and thus is not strictly enforced by the agency. S. 1691 would direct the President to promulgate new regulations to enforce the requirement. If the new insurance rule is strictly enforced, FEMA could reduce federal payments for public assistance. Because it is uncertain how this provision would be implemented, CBO has no basis for estimating the amount of potential savings that would result from reducing the amount of public assistance provided to uninsured properties.

The bill also would lower the amount of general assistance that FEMA could provide to public entities and owners of PNPs in lieu of the federal government's share of the cost to repair or replace a facility. Under current law, applicants for public assistance can elect to receive a payment equal to 90 percent of the federal government's expected costs to repair or replace a damaged facility. S. 1691 would lower that rate to 75 percent. While lowering the contribution rate would decrease disaster relief costs in cases where applicants continue to accept in-lieu contributions, it also could increase costs in those cases where they choose to forgo those contributions and seek the full federal share of repair costs instead. The two effects could offset one another. The budgetary impact of this provision would depend on choices made by nonfederal entities; thus, CBO has no basis for estimating whether this provision would increase or decrease federal costs.

S. 1691 would direct the President establish standardized reimbursement rates for indirect costs incurred by grantees but not chargeable to a specific project. Because it is uncertain how these rates would be established, CBO has no basis for estimating the amount of potential savings.

Finally, under S. 1691, states could request permission from FEMA to administer postdisaster mitigation programs. Federal costs could be reduced if states absorbed some of FEMA's administrative costs without reimbursement. CBO has no basis, however, for predicting whether states would pursue this option or for estimating the timing or magnitude of potential administrative savings to FEMA.

Provision Affecting the Timing of Outlays. CBO estimates that S. 1691 would substantially increase the rate at which new budget authority is spent from the disaster relief fund. Under current law, funds appropriated for such assistance are often spent years later. But we expect that disbursements would occur more rapidly because of the provision

allowing FEMA to provide funds for disaster relief to public entities and PNPs based on an estimate of a project's costs rather than on its actual costs. (This provision would not apply to FEMA's current balances of previously appropriated funds.) CBO estimates that this change would result in a net increase in outlays of about \$1.9 billion over the 2001-2005 period, but that it would have no net effect over the long run. Because S. 1691 would require the President to convene an expert panel and establish rules for the new process, CBO assumes that this provision would not affect spending for disasters that occur before fiscal year 2003.

Direct Spending

Two provisions in S. 1691 would affect direct spending. First, the bill would increase direct spending by allowing FEMA to spend, without further appropriation, any money donated as gifts and bequests for predisaster mitigation efforts. Based on information from FEMA, CBO estimates that such spending would be negligible in any single year.

The bill also would amend current law to expand the definition of “public safety officer” to include certain employees of FEMA and state and local emergency management agencies. Under current law, families of public safety officers who are killed in the line of duty are eligible to receive a payment of \$146,949 (2000 dollars). Such payments are considered to be direct spending. Based on information from FEMA and state and local emergency management groups, CBO estimates that any increase in direct spending resulting from this provision would not exceed \$500,000 in any year.

Revenues

S. 1691 would allow FEMA to accept gifts and donations for predisaster mitigation efforts. These amounts would be recorded in the budget as governmental receipts (revenues) and the use of any such amounts under this bill would be direct spending. As described above, CBO estimates that such donations would not be significant in any single year.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. Pay-as-you-go procedures would apply to S. 1691 because it would allow FEMA to accept and use gifts and bequests for predisaster mitigation and would make certain FEMA and state and local emergency management

employees eligible for federal death benefits. CBO estimates that these provisions would have no significant effect on direct spending or receipts.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

S. 1691 contains no intergovernmental mandates as defined in UMRA and, on balance, would benefit state, local, and tribal governments. The bill would authorize a predisaster mitigation program to provide technical and financial assistance to qualified state, local, and tribal governments and would increase the maximum federal contribution for mitigation costs from 15 percent to 20 percent for states with FEMA-approved mitigation plans. Although some costs to state, local, and tribal governments would likely result from certain provisions of the bill (as discussed above as potential savings to the federal government), CBO expects that such costs would be more than offset by the budgetary benefits generated by the bill.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The legislation would impose no new private-sector mandates as defined in UMRA.

PREVIOUS CBO ESTIMATE

On March 15, 1999, CBO transmitted a cost estimate for H.R. 707 as passed by the House of Representatives on March 4, 1999. At that time, CBO estimated that implementing H.R. 707 would increase discretionary spending by a total of \$2 billion over five years. That amount included about \$700 million in new spending and about \$1.3 billion in accelerated spending from FEMA's disaster relief fund. In contrast, we assume that implementing S. 1691 would result in additional spending of \$2 billion over five years, including \$112 million in net new spending and about \$1.9 billion in accelerated outlays.

The estimate of new discretionary spending under H.R. 707 is higher because that act would authorize more spending than S. 1691, particularly for postdisaster hazard mitigation. The estimated impact of accelerated spending for disaster relief under S. 1691 is higher than our estimate for H.R. 707 because funding for disaster relief for 2000 increased significantly from the 1999 level. At the time of the previous estimate, the Congress had provided about \$1.2 billion for disaster relief, compared to about \$2.7 billion for the current year.

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